
EQUIPMENT LEASE, ASSIGNMENT,
CHATTEL MORTGAGE AND
SECURITY AGREEMENT - TRUST DEED

Dated as of May 15, 1973

RECORDATION NO. 112
FILED & RECORDED
JUL 25 1973 - 10 25 AM
FEDERAL RESERVE COMMISSION

Among

TRUST COMPANY FOR USL, INC., TRUSTEE

as Lessor

and

CANADIAN NATIONAL RAILWAY COMPANY,

as Lessee

and

UNITED STATES LEASING INTERNATIONAL, INC.,

as Agent for
the Lessor

WELLS FARGO BANK, N. A.,

and

R.T. DREILING,

as Security Trustees

TABLE OF CONTENTS

<u>Section</u>	<u>Heading</u>	<u>Page</u>
PARTIES		1
RECITALS		1
DEFINED TERMS		2
PART I		
1.	Manufacture and Delivery of Equipment	3
	1.1. Intent to Lease	3
	1.2. Certificates of Acceptance	3
	1.3. Acceptance of Equipment	3
2.	Rents and Payment Dates	4
	2.1. Rent for Equipment	4
	2.2. Rent Payment Dates	4
	2.3. Place of Rent Payment	4
	2.4. Net Lease	4
	2.5. Sufficiency of Periodic Rent	5
3.	Term of the Lease	5
4.	Ownership and Marking of the Equipment	5
	4.1. Retention of Title	5
	4.2. Duty to Number and Mark Equipment	5
	4.3. Prohibition Against Certain Designations	6
	4.4. Indemnification for Improper Marking	6
5.	Disclaimer of Warranties	6
6.	Lessee's Indemnity	7
	6.1. Scope of Indemnity	7
	6.2. Continuation of Indemnities and Assumptions ...	7
	6.3. Termination of Certain Indemnities and Assump- tions	8
7.	Rules, Laws and Regulations	8
8.	Use and Maintenance of Equipment	8

<u>Section</u>	<u>Heading</u>	<u>Page</u>
9.	Liens on the Equipment	9
10.	Filing, Payment of Fees and Taxes	9
	10.1. Filing	9
	10.2. Payment of Taxes	9
11.	Payment for Casualty Occurrence for Equipment	10
	11.1. Duty of Lessee to Notify Lessor	10
	11.2. Sum Payable for Casualty Loss	10
	11.3. Rent Termination	11
	11.4. Disposition of Equipment	11
	11.5. Casualty Prior to Commencement of Periodic Rent	11
	11.6. Casualty Value	11
	11.7. Risk of Loss	11
	11.8. Eminent Domain	12
12.	Annual Reports	12
	12.1. Duty of Lessee to Furnish	12
	12.2. Lessor's Inspection Rights	12
13.	Return of Equipment Upon Expiration of Term.....	12
14.	Default	13
	14.1. Events of Default	13
	14.2. Cumulative Remedies	15
	14.3. Lessor's Failure to Exercise Rights	15
15.	Return of Equipment Upon Default	15
	15.1. Lessee's Duty to Return	15
	15.2. Intention of Parties	16
	15.3. Lessor Appointed Lessee's Agent	16
16.	Assignments by Lessor and Lessee: Use and Possession.	16
	16.1. Assignment	16
	16.2. Lessee's Rights to the Equipment	19
	16.3. Use and Possession on Lines Other than Lessee's	19
	16.4. Merger or Consolidation of Lessee	20
	16.5. Sublease to National Railways.....	20
17.	Representations and Warranties.....	20

<u>Section</u>	<u>Heading</u>	<u>Page</u>
18.	Opinions of Counsel for Lessee and Lessor	21
	18.1. Opinion of Counsel for Lessee	21
	18.2. Opinion of Counsel for Lessor	22
19.	Interest on Overdue Rentals and Amounts Paid by Lessor	22
20.	Option to Purchase or Relet.....	22
	20.1. Right of Lessee to Purchase	22
	20.2. Fair Market Value	23
	20.3. Continuation of Certain Provisions	23
	20.4. Right of Lessee to Renew	24
	20.5. Fair Rental Value	24
	20.6. Return of Equipment	24
21.	Limitations on Liability of the Lessor to the Lessee	24
<u>PART II</u>		
22.	Covenants and Warranties of the Lessor	26
	22.1. Lessor's Duties	26
	22.2. Warranty of Title	26
	22.3. Further Assurances	26
	22.4. After-acquired Property	26
	22.5. Recordation and Filing	27
	22.6. Modifications of the Sections 1 through 20 ..	27
	22.7. Power of Attorney in respect of the Lease ...	28
23.	Release of Property	28
	23.1. Release Upon Casualty or Purchase	28
	23.2. Release of Security Interest	28
24.	Application of Assigned Rentals and Certain Other Moneys Received by the Secured Party	28
	24.1. Application of Rents	28
	24.2. Multiple Notes	30
	24.3. Present Value of Rent	30
	24.4. Default	30

<u>Section</u>	<u>Heading</u>	<u>Page</u>
25.	Defaults and Other Provisions	30
25.1.	Events of Default	30
25.2.	Security Trustees' Rights	31
25.3.	Acceleration Clause	33
25.4.	Waiver by Lessor	33
25.5.	Effect of Sale	34
25.6.	Application of Sale Proceeds	34
25.7.	Discontinuance of Remedies	34
25.8.	Cumulative Remedies	34
26.	Successor Security Trustees and Other Provisions ...	35
27.	Limitations on Liability of Lessor, Agent and Trustor to the Security Trustees	39

PART III

28.	Miscellaneous	41
28.1.	Successors and Assigns	41
28.2.	Partial Invalidity	41
28.3.	Notices	41
28.4.	Amendment and Substitution of Schedules	43
28.5.	Execution in Counterparts	43
28.6.	Governing Law	43

Attachments

Schedule A -- Description of Equipment
Schedule B -- Certificate of Acceptance
Schedule C -- Schedule of Casualty Values

EQUIPMENT LEASE, ASSIGNMENT,
CHATTEL MORTGAGE AND
SECURITY AGREEMENT - TRUST DEED

THIS AGREEMENT dated as of May 15, 1973 among TRUST COMPANY FOR USL, INC., a trust company organized under the laws of the State of Illinois, not in its individual capacity but as Trustee under a Trust Agreement dated as of January 1, 1973 (the "Lessor"), UNITED STATES LEASING INTERNATIONAL, INC., a California corporation, as agent for the Lessor (the "Agent") and CANADIAN NATIONAL RAILWAY COMPANY, a Canadian corporation (the "Lessee") and WELLS FARGO BANK, N.A., a national Banking association, whose Post Office address is P.O. Box 44011, San Francisco, California 94144, (the "Corporate Security Trustee") and R. T. Dreiling, (the "Individual Security Trustee"), whose Post Office address is P.O. Box 44011, San Francisco, California 94144 (the Corporate Security Trustee and the Individual Security Trustees being herein sometimes collectively called the "Security Trustees").

W I T N E S S E T H:

WHEREAS the Lessee has agreed to purchase certain railroad equipment (hereinafter referred to collectively as the "Equipment" and individually "Item of Equipment") described in Schedule A attached hereto and made a part hereof from the manufacturer thereof identified in said Schedule A (the "Manufacturer") for the purchase prices set forth in said Schedule A; and

WHEREAS the Lessee desires to lease the Equipment at the rentals and for the terms and upon the conditions hereinafter provided; and

WHEREAS the Lessor and the Lessee have heretofore entered into an Agreement to Acquire and Lease dated as of January 1, 1973 (the "Acquisition Agreement") providing for the acquisition by the Lessor from said manufacturer of the Equipment and the lease thereof to the Lessee subject to the delivery of the Equipment by said manufacturer and acceptance thereof by the Lessee, as lessee, and the completion of arrangements by the Lessor to finance the acquisition of the Equipment; and

WHEREAS the Lessor and the Lessee have heretofore further entered into an Equipment Lease dated as of January 1, 1973, whereby the Lessee was enabled to take delivery of all or a portion of the Equipment, as lessee, prior to completion of such financing arrangements and to the execution and delivery of this Agreement; and

WHEREAS, such financing arrangements have been completed and the Lessor and the Lessee now desire to enter into this Agreement amending and supplementing the said Equipment Lease dated as of January 1, 1973;

WHEREAS, the Security Trustees desire to provide financing to the Lessor as contemplated by the Acquisition Agreement under the terms and provisions hereof, and the Lessor and the Lessee desire that such financing be so provided, and said parties desire that this Agreement shall hereafter evidence the lease terms and provisions and the other matters herein provided in respect of the Equipment in substitution of the terms and the provisions of said Equipment Lease dated as of January 1, 1973, and herein below each such party executes this Agreement as evidence thereof;

NOW, THEREFORE, in consideration of the premises and of the sums to be paid and the covenants hereinafter provided to be kept and performed, the parties hereto agree as follows:

DEFINED TERMS

Except as the introduction to Part II hereof or the context otherwise specifies or requires, each of the following terms shall, when used in this Agreement, have the meaning indicated:

Trust Agreement: The term "Trust Agreement" shall mean the Trust Agreement dated as of January 1, 1973 among Trust Company for USL, Inc., as Trustee, United States Leasing International, Inc., as Agent for the Trustee, and BIRMINGHAM TRUST NATIONAL BANK, UNION TRUST COMPANY OF MARYLAND and IDAHO FIRST NATIONAL BANK, as Trustors, as supplemented or amended from time to time.

Trustors: The term "Trustors" shall mean Birmingham Trust National Bank, Union Trust Company of Maryland and Idaho First National Bank, and any corporation succeeding to their respective interests, by merger, consolidation or acquisition of all or substantially all of their respective assets as an entirety.

Loan Agreements: The term "Loan Agreements" shall mean the separate Loan Agreements each dated as of May 15, 1973 among the Trustee, the Agent and Los Angeles County Employees Retirement Association, Continental Assurance Company, The Philadelphia Saving Fund Society, Lutheran Brotherhood, State Mutual Life Assurance Company of America, Bankers Life Insurance Company of Nebraska, Mutual Trust Life Insurance Company and Security Mutual Life Insurance Company of New York (the "Lenders"), as supplemented or amended from time to time.

Note or Notes: The term "Note" shall mean any of, and the term "Notes" shall mean all of, the 7-7/8% Secured Notes due 1973-1988 of the Trustee issued and outstanding under the Loan Agreements.

Interim Rent Commencement Date: The term "Interim Rent Commencement Date" as to any Item of Equipment shall mean the date of payment by the Lessor of the manufacturer's invoice for such Item of Equipment.

Periodic Rent Commencement Date: The term "Periodic Rent Commencement Date" shall mean July 25, 1973.

PART I

Provisions relating to the Lease and Delivery of the Equipment, Rentals Reserved and Duties and Obligations of the Lessee in respect of the Equipment. This Part I is hereinafter for convenience sometimes referred to as the "Lease", and includes Sections 1 through 21 of this Agreement.

SECTION 1. MANUFACTURE AND DELIVERY OF EQUIPMENT.

1.1. Intent to Lease. As more fully set forth in the preambles hereto and the Acquisition Agreement referred to therein the Lessor is acquiring the Equipment, and upon delivery of each Item of Equipment by the Manufacturer thereof, the Lessor shall lease and let such Item of Equipment to the Lessee and the Lessee shall hire such Item of Equipment from the Lessor for the rental and on and subject to the terms and conditions herein set forth.

1.2. Certificates of Acceptance. Upon delivery of each Item of Equipment by the Manufacturer thereof the Lessee will inspect such Item of Equipment and if such Item of Equipment tendered for delivery appears to meet the specifications, the Lessee will accept delivery thereof and execute and deliver to such Manufacturer and Lessor duplicate Certificates of Acceptance (the "Certificates of Acceptance"), substantially in the form of Schedule B attached hereto and made a part hereof whereupon such Item shall for all purposes be deemed to have been delivered to and accepted by the Lessee and shall be subject thereafter to all of the terms and conditions of this Agreement.

1.3. Acceptance of Equipment. The Lessee's execution and delivery to the Lessor of the Certificates of Acceptance with respect to each Item of Equipment shall conclusively establish that each

Item of Equipment is acceptable to and accepted by the Lessee hereunder, notwithstanding any defect with respect to design, manufacture, condition or in any other respect, and that each Item of Equipment is in good order and condition and appears to conform to the specifications applicable thereto and to all applicable Canadian Transport Commission and United States Department of Transportation and all other foreign or domestic governmental agency requirements and specifications, if any. The Lessee represents that it has no knowledge of any such defect.

SECTION 2. RENTS AND PAYMENT DATES.

2.1. Rent for Equipment. The Lessee agrees to pay the Lessor the following Rent for each Item of Equipment leased hereunder:

(a) Periodic Rent. For each Item of Equipment thirty (30) semiannual installments of Periodic Rent each payable in arrears in the amount provided for in Schedule A.

(b) Daily Interim Rent. For each Item of Equipment the amount per day provided therefor in Schedule A hereto for the period, if any, from the Interim Rent Commencement Date to but not including the Periodic Rent Commencement Date.

References to Schedule A in this Section 2.1 (and the amounts of Daily Interim Rental and Periodic Rent to be paid pursuant to said Schedule) shall mean either Schedule A-I or A-II as specified in Section 28.4 hereof.

2.2. Rent Payment Dates. (a) The total amount of Daily Interim Rent for all Items of Equipment delivered to the Lessee hereunder shall be due and payable on the Periodic Rent Commencement Date. The thirty (30) installments of Periodic Rent for each Item of Equipment shall be due and payable semiannually commencing six calendar months after the Periodic Rent Commencement Date.

2.3. Place of Rent Payment. All payments provided for in this Lease to be made to the Lessor shall be made to the Lessor at 1211 West 22nd Street, Oak Brook, Illinois 60521, or at such other place as the Lessor, or its assigns shall specify in writing.

2.4. Net Lease. This Lease is a "net lease" and the Lessee shall not be entitled to any abatement of Rent or reduction thereof, including, but not limited to, abatements or reductions due to any

present or future claims of the Lessee against the Lessor under this Lease or otherwise or against the Manufacturer of the Equipment, nor, except as otherwise expressly provided herein, shall this Lease terminate, or the respective obligations of the Lessor or the Lessee be otherwise affected, by reason of any defect in or failure of title of the Lessor to the Equipment or any defect in or damage to or loss or destruction of all or any of the Equipment from whatsoever cause, the taking or requisitioning of the Equipment by condemnation or otherwise, the lawful prohibition of the Lessee's use of the Equipment, the interference with such use by any private person or corporation, the invalidity or unenforceability or lack of due authorization or other infirmity of this Lease, or lack of right, power or authority of the Lessor to enter into this Lease, or for any other cause whether similar or dissimilar to the foregoing, any present or future law to the contrary notwithstanding, it being the intention of the parties hereto that the Rents and other amounts payable by the Lessee hereunder shall continue to be payable in all events unless the obligation to pay the same shall be terminated pursuant to Section 11.3 hereof, or until, pursuant to Section 13 hereof, the Equipment is placed and ready for delivery to Lessor on the Lessee's lines, or is stored for the Lessor on the Lessee's lines, or leaves the Lessee's lines for off-line delivery to the Lessor.

2.5. Sufficiency of Periodic Rent. Anything herein contained to the contrary notwithstanding, each installment of Periodic Rent payable hereunder shall be, under any circumstances and in any event, in an amount at least sufficient to pay in full, as of the Rent Payment Date immediately succeeding the day on which such installment of Periodic Rent is due, any payments then required to be made on account of the principal of, and premium, if any and interest on, the Notes then outstanding.

SECTION 3. TERM OF THE LEASE.

The term of this Lease as to each Item of Equipment shall begin on the date of delivery to and acceptance by the Lessee of such Item of Equipment and subject to the provisions of Section 11 hereof and of the obligation of the Lessee to purchase the Equipment on July 25, 1973 under certain circumstances as provided for in Section 7 of the Acquisition Agreement, shall terminate on July 25, 1988 with the option of purchase or renewal provided in Section 20 hereof.

SECTION 4. OWNERSHIP AND MARKING OF THE EQUIPMENT.

4.1. Retention of Title. The Lessor, as between the Lessor and the Lessee, shall and hereby does retain full legal title to the Equipment notwithstanding the delivery thereof to and the possession and use thereof by the Lessee.

4.2. Duty to Number and Mark Equipment. The Lessee will cause each Item of Equipment to be kept numbered with its road

number as set forth in Schedule A and will keep and maintain, plainly, distinctly, permanently and conspicuously marked by a plate or stencil printed in contrasting color upon each side of each Item of Equipment in letters not less than one inch in height as follows:

"Leased from United States Leasing International, Inc., as agent for Owner-Trustee and Subject to a Security Interest Recorded with the I. C. C. and the Registrar General of Canada"

with appropriate changes thereof and additions thereto as from time to time may be required by law in order to protect the title of the Lessor to such Item of Equipment and its rights under this Agreement. The Lessee will not place any such Item of Equipment in operation or exercise any control or dominion over the same until required legend shall have been so marked on both sides thereof and will replace promptly any such names and word or words which may be removed, defaced or destroyed. The Lessee will not change the road number of any Item of Equipment except with the consent of the Lessor and in accordance with a statement of new road numbers to be substituted therefor, which consent and statement previously shall have been filed with the Lessor by the Lessee and filed, recorded or deposited in all public offices where this Agreement shall have been filed, recorded or deposited.

4.3. Prohibition Against Certain Designations. Except as above provided, the Lessee will not allow the name of any person, association or corporation to be placed on the Equipment as a designation that might be interpreted as a claim of ownership; provided, however, that the Lessee may cause the Equipment to be lettered with the names or initials or other insignia customarily used by the Lessee or its affiliates on railroad equipment used by it of the same or a similar type for convenience of identification.

4.4. Indemnification for Improper Marking. The Lessee shall indemnify the Lessor, the Agent and the Trustors and their respective successors and assigns against any liability, loss or expense incurred by any of them as a result of the aforesaid marking of the Equipment with such name, initials or insignia.

SECTION 5. DISCLAIMER OF WARRANTIES.

AS BETWEEN LESSOR AND LESSEE, LESSOR LEASES THE EQUIPMENT, AS-IS WITHOUT WARRANTY OR REPRESENTATION EITHER EXPRESS OR IMPLIED, AS TO (A) THE FITNESS OR MERCHANTABILITY OF ANY ITEM OR ITEMS OF EQUIPMENT, (B) THE LESSOR'S TITLE THERETO, (C) THE LESSEE'S RIGHT TO THE QUIET ENJOYMENT THEREOF, OR (D) ANY OTHER MATTER WHATSOEVER, IT BEING AGREED THAT ALL SUCH RISKS, AS BETWEEN THE LESSOR AND THE LESSEE, ARE TO BE BORNE BY THE LESSEE. The Lessor hereby appoints

and constitutes the Lessee its agent and attorney-in-fact during the term of this Lease to assert and enforce, from time to time, in the name and for the account of the Lessor and the Lessee, as their interests may appear, but in all cases at the sole cost and expense of the Lessee, whatever claims and rights the Lessor may have as owner of the Equipment against any manufacturers or contractors in respect thereof.

SECTION 6. LESSEE'S INDEMNITY.

6.1. Scope of Indemnity. The Lessee shall defend, indemnify and save harmless the Lessor, the Agent and the Trustors and their respective successors and assigns from and against:

(a) any and all loss or damage of or to the Equipment, usual wear and tear excepted, and

(b) any claim, cause of action, damages, liability, cost or expense (including counsel fees and costs in connection therewith) which may be incurred in any manner by or for the account of any of them (i) relating to the Equipment or any part thereof, including without limitation the construction, purchase, delivery, installation, ownership, leasing or return of the Equipment or as a result of the use, maintenance, repair, replacement, operation or the condition thereof (whether defects are latent or discoverable by the Lessor or by the Lessee), except counsel fees or other costs or expenses incurred by the Agent, Trustors or Lessor, with respect to their initial participation in this transaction, including counsel fees, costs and expenses incurred in the execution of all necessary documents, (ii) by reason or as the result of any act or omission of the Lessee for itself or as agent or attorney-in-fact for the Lessor hereunder, (iii) as a result of claims for patent infringements, or (iv) as a result of claims for negligence or strict liability in tort.

6.2. Continuation of Indemnities and Assumptions. The indemnities and assumptions of liability in this Section 6 contained shall continue in full force and effect notwithstanding the termination of this Agreement, or the termination of the term hereof in respect of any one or more Items of Equipment, whether by expiration of time, by operation of law or otherwise. The Lessee shall be entitled to control, and shall assume full responsibility for, the defense of such claim or liability.

6.3. Termination of Certain Indemnities and Assumptions. Notwithstanding anything contained in this Section 6, the Lessee shall not be obligated to indemnify or assume liability in respect of an Item of Equipment for any claim, cause of action, damages or liability to the extent that such claim, cause of action, damages or liability arises solely as a result of a situation or event occurring after such Item of Equipment has been returned to the Lessor pursuant to Section 13 or 15 hereof or after this Agreement with respect to such Item of Equipment has otherwise terminated; provided, however, that such indemnities and assumption of liability shall not apply in respect of any matters referred to in subsection (a) or clause (i) or (ii) of subsection (b) of Section 6.1 hereof, occurring after the termination of this Agreement, except for any such matters occurring after the termination arising in connection with the Lessee's assembling, delivering, storing or transporting of the Equipment as provided in Section 13 or as the case may be, 15, hereof. The foregoing does not guarantee a residual value.

SECTION 7. RULES, LAWS AND REGULATIONS.

The Lessee agrees to comply with all governmental laws, regulations, requirements and rules (including the rules of the Canadian Transport Commission and the United States Department of Transportation and the current Interchange Rules and supplements thereto of the Mechanical Division Association of American Railroads) with respect to the use, maintenance and operation of each Item of Equipment subject to this Agreement. In case any equipment or appliance is required to be installed on such Item of Equipment in order to comply with such laws, regulations, requirements and rules, the Lessee agrees to make such changes, additions and replacements at its own expense.

SECTION 8. USE AND MAINTENANCE OF EQUIPMENT.

The Lessee shall use the Equipment only in the manner for which it was designed and intended and so as to subject it only to ordinary wear and tear. The Lessee shall, at its own cost and expense, maintain and keep the Equipment in good order, condition and repair, ordinary wear and tear excepted, suitable for use in interchange. The Lessee may modify any Item of Equipment so long as such modification or modifications do not adversely affect or impair the value, originally intended function or use of such Item or Items of Equipment. Any parts installed or replacements made by the Lessee upon any Item of Equipment (except such as are not required pursuant to Section 7 hereof and can be removed without damage to, or in any way affecting or impairing either the originally intended function or the use of, such Item of Equipment) shall be considered accessions to such Item of Equipment and title thereto shall be immediately vested in the Lessor, without cost or expense to the Lessor.

SECTION 9. LIENS ON THE EQUIPMENT.

The Lessee shall pay or satisfy and discharge any and all claims against, through, or under the Lessee and its successors or assigns which, if unpaid, might constitute or become a lien or a charge upon the Equipment, and any liens or charges which may be levied against or imposed upon any Item of Equipment as a result of the failure of the Lessee to perform or observe any of its covenants or agreements under this Lease, but the Lessee shall not be required to pay or discharge any such claims so long as it shall, in good faith and by appropriate legal proceedings contest the validity thereof in any reasonable manner which will not affect or endanger the title and interest of the Lessor to the Equipment. The Lessee's obligations under this Section 9 shall survive termination of the Lease.

SECTION 10. FILING, PAYMENT OF FEES AND TAXES.

10.1. Filing. Prior to the delivery and acceptance of the first Item of Equipment, the Lessor will at the sole cost and expense of the Lessor, make suitable arrangements to have this Agreement deposited with the Registrar General of Canada pursuant to Section 86 of the Railway Act of Canada and to publish notice of such deposit in the Canada Gazette pursuant to said Section 86 and duly filed, registered or recorded in conformity with Section 20c of the Interstate Commerce Act and in such other places within or without Canada and the United States as the Lessor may reasonably require for the protection of its title. The Lessee will, from time to time, do and perform any other act and will execute, acknowledge, deliver, file, register and record (and will re-file, re-register, or re-record whenever required) any and all further instruments known to be required by law or reasonably requested by the Lessor, for the purpose of protecting the Lessor's title to the Equipment to the satisfaction of the Lessor's counsel or for the purpose of carrying out the intention of this Agreement, and in connection with any such action, will deliver to the Lessor proof of such filings and an opinion of the Lessee's counsel that such action has been properly taken. The Lessor will pay all costs, charges and expenses incident to any such filing, re-filing, registering, re-registering, recording and re-recording of any such instruments or incident to the taking of such action.

10.2. Payment of Taxes. The Lessee, or the Lessor at the Lessee's expense, shall report, pay and discharge when due all license and registration fees, assessments, sales, use and property taxes, gross receipts taxes arising out of receipts from use or operation of Equipment, and other taxes, fees and governmental charges

similar or dissimilar to the foregoing (excluding any net income tax, provided that the Lessee agrees to pay that portion of any such net income tax which is in direct substitution for, or which relieves the Lessee from, a tax which the Lessee would otherwise be obligated to pay under the terms of this Section and any Canadian federal sales tax included in the purchase price of the Equipment), together with any penalties or interest thereon, imposed by any province, state, federal or local government upon any Item of Equipment and whether or not the same shall be assessed against or in the name of the Lessor, the Agent, the Lessee, or the Trustors; provided, however, that the Lessee shall not be required to pay or discharge any such tax or assessment (i) so long as it shall, in good faith and by appropriate legal proceedings, contest the validity thereof in any reasonable manner which will not affect or endanger the title and interest of the Lessor to the Equipment; however, the Lessee shall reimburse the Lessor for any damages or expenses resulting from such failure to pay or discharge, or (ii) as to assessments against or in the name of anyone other than the Lessee, until 20 days after written notice thereof shall have been given to the Lessee.

SECTION 11. PAYMENT FOR CASUALTY OCCURRENCE FOR EQUIPMENT.

11.1. Duty of Lessee to Notify Lessor. In the event that any Item of Equipment shall be or become lost, stolen, destroyed, or, in the opinion of the Lessee, irreparably damaged or damaged beyond economic repair, or shall be requisitioned or taken over by any governmental authority under the power of eminent domain or otherwise during the term of this Lease (any such occurrence, except for any requisition which by its terms does not exceed the remaining term of this Lease, being hereinafter called a Casualty Occurrence), the Lessee shall promptly and fully (after it has knowledge of such Casualty Occurrence) inform the Lessor in regard thereto.

11.2. Sum Payable for Casualty Loss. When the aggregate Casualty Value (as herein defined) of Items of Equipment having suffered a Casualty Occurrence (exclusive of Items of Equipment having suffered a Casualty Occurrence with respect to which a payment shall have been made to the Lessor pursuant to this Section 11) shall exceed \$250,000, the Lessee, on the next succeeding Rent Payment Date, shall pay to the Lessor a sum equal to the Casualty Value of such Item or Items of Equipment as of the date of such payment; provided that notwithstanding the foregoing the Lessee shall on the last Rent Payment Date of each calendar year pay to Lessor a sum equal to the Casualty Value of any Item or Items of Equipment which have suffered a casualty occurrence during such calendar year or any prior year for which no payment has previously been made to the Lessor pursuant to this Section 11.2.

11.3. Rent Termination. Upon (and not until) payment of the Casualty Value in respect of any Item or Items of Equipment, the obligation to pay Rent for such Item or Items of Equipment (including the Periodic Rent installment due on the Casualty Value payment date) shall terminate, but the Lessee shall continue to pay Rent for all other Items of Equipment. The Lessee shall pay when due all Rent payments as to an Item or Items due prior to the date on which the Casualty Value thereof is payable.

11.4. Disposition of Equipment. Subject to the provisions of Section 11.2 hereof, the Lessee shall, as agent for the Lessor, dispose of such Item or Items of Equipment as soon as it is able to do so for the best price obtainable. Any such disposition shall be on an "as is", "where is" basis without representation or warranty, express or implied. As to each separate Item of Equipment so disposed of the Lessee may retain all amounts of such price plus any insurance proceeds and damages received by the Lessee by reason of such Casualty Occurrence. In disposing of such Item or Items of Equipment, the Lessee shall take such action as the Lessor shall reasonably request to terminate any contingent liability which the Lessor might have arising after such disposition from or connected with such Item or Items of Equipment.

11.5. Casualty Prior to Commencement of Periodic Rent. If the Lessee shall have notified the Lessor that an Item or Items of Equipment have suffered a Casualty Occurrence prior to the Periodic Rent Commencement Date hereunder with respect thereto, the Casualty Value for such Item or Items shall be paid on the Periodic Rent Commencement Date and shall be an amount equal to 101% of the cost of said Item or Items paid by the Lessor in addition to the Daily Interim Rent for said Item or Items otherwise payable on said date.

11.6. Casualty Value. The Casualty Value of each Item of Equipment shall be an amount determined as of the date the Casualty Value is paid as provided in this Section 11 (and not the date of the Casualty Occurrence) equal to that percentage of the original cost to the Lessor of such Item of Equipment as set forth in the Schedule of Casualty Value attached hereto as Schedule C. References to Schedule C in this Section 11.6 (and the amounts to be paid as determined by said Schedule) shall mean either Schedule C-I or C-II as specified in Section 28.4 hereof.

11.7. Risk of Loss. The Lessee shall bear the risk of and, except as hereinabove in this Section 11 provided, shall not be released from its obligations hereunder in the event of any Casualty Occurrence to any Item of Equipment after the date hereof.

11.8. Eminent Domain. In the event that during the term of this Lease the use of any Item of Equipment is requisitioned or taken by any governmental authority under the power of eminent domain or otherwise for a period which does not exceed the remaining term of this Lease, the Lessee's duty to pay Rent shall continue for the duration of such requisitioning or taking. The Lessee shall be entitled to receive and retain for its own account all sums payable for any such period by such governmental authority as compensation for requisition or taking of possession.

SECTION 12. ANNUAL REPORTS.

12.1. Duty of Lessee to Furnish. On or before April 1 in each year, commencing with the year 1974 the Lessee will furnish to the Lessor an accurate statement, as of the end of the preceding calendar year (a) showing the amount, description and numbers of the Items of Equipment then leased hereunder, the amount, description and numbers of all Items of Equipment that may have suffered a Casualty Occurrence during the preceding 12 months or longer period between successive statements (or since the date of this Lease, in the case of the first such statement), and such other information regarding the condition or repair of the Equipment as Lessor may reasonably request, and (b) stating that, in the case of all Equipment repainted during the period covered by such statement, the markings required by Section 4.2 hereof shall have been preserved or replaced.

12.2. Lessor's Inspection Rights. The Lessor shall have the right, at its sole cost and expense, by its authorized representative, to inspect the Equipment and the Lessee's records with respect thereto, at such times as shall be reasonably necessary to confirm to the Lessor or its assigns the existence and proper maintenance thereof during the continuance of this Lease.

SECTION 13. RETURN OF EQUIPMENT UPON EXPIRATION OF TERM.

Duty of Lessee to Return Equipment. Upon the expiration of the term of this Lease with respect to any Item of Equipment, the Lessee will, at its own cost and expense, at the request of the Lessor, deliver possession of such Item of Equipment to the Lessor upon such storage tracks of the Lessee as the Lessor may designate, or in the absence of such designation, as the Lessee may select, and permit the Lessor to store such Item of Equipment on such tracks for a period not exceeding 90 days and transport the same at any

time within such 90 days period to any reasonable place on the lines of railroad operated by the Lessee or to any connecting carrier for shipment, all as directed by the Lessor upon not less than 30 days' written notice to Lessee. All movement and storage of each such Item is to be at the risk and expense of the Lessee. During any such storage period the Lessee will permit the Lessor or any person designated by it, including the authorized representative or representatives of any prospective purchaser of any such Item, to inspect the same. The assembling, delivery, storage and transporting of the Equipment as hereinbefore provided are of the essence of this Lease, and upon application to any court of equity having jurisdiction in the premises the Lessor shall be entitled to a decree against the Lessee requiring specific performance of the covenants of the Lessee to so assemble, deliver, store and transport the Equipment.

SECTION 14. DEFAULT.

14.1. Events of Default. If, during the continuance of this Lease, one or more of the following events ("Events of Default") shall occur:

(a) Default shall be made in the payment of any part of the Rental provided in Section 2 hereof or the sums due under Section 11 or 20 hereof and such default shall continue for ten days; or

(b) The Lessee shall make or permit any unauthorized assignment or transfer of this Lease, or of possession of the Equipment, or any portion thereof, and shall fail or refuse to cause such assignment or transfer to be cancelled by agreement of all parties having any interest therein and to recover possession of such Equipment within 30 days; or

(c) Default shall be made in the observance or performance of any warranty, representation or any other of the covenants, conditions and agreements on the part of the Lessee contained herein or in any other agreement in writing between the Lessee and the Lessor, the Trustor or the Agent concerning the Equipment, such Agreement having been executed by an officer of the Lessee, and such default shall continue for 30 days after written notice from the Lessor to the Lessee, specifying the default and demanding the same to be remedied; or

(d) Any other proceeding shall be commenced by or against the Lessee for any relief under any bankruptcy or insolvency laws, or laws relating to the relief of

debtors, readjustments of indebtedness, reorganizations, arrangements, compositions or extensions (other than a law which does not permit any readjustment of the obligations of the Lessee hereunder), and, if instituted against the Lessee, are consented to or are not dismissed within 60 days after such proceedings shall have been commenced, unless all the obligations of the Lessee under this Lease shall have been duly assumed in writing, pursuant to a court order or decree, by a trustee or trustees appointed in such proceedings or otherwise given a status comparable to obligations incurred by such a trustee or trustees within 30 days after such appointment, if any, or 60 days after such proceeding shall have been commenced, whichever is earlier;

then in any such case the Lessor, at its option, may:

(1) Proceed by appropriate court action or actions, either at law or in equity, to enforce performance by the Lessee of the applicable covenants of this Lease or to recover damages for the breach thereof; or

(2) By notice in writing to the Lessee, terminate the Lessee's rights and privileges under this Agreement, whereupon all right of the Lessee to the use of the Equipment shall absolutely cease and terminate as though this Agreement had never been made, but the Lessee shall remain liable as hereinafter provided; and thereupon, the Lessor may by its agents enter upon the premises of the Lessee or other premises where any of the Equipment may be located and take possession of all or any of such Equipment and thenceforth hold, possess and enjoy the same free from any right of the Lessee, or its successors or assigns, to use the Equipment for any purpose whatever, but the Lessor, shall, nevertheless, have a right to recover from the Lessee any and all amounts which may have accrued to the date of such termination (computing the Rental for any number of days less than a full Rental period by a fraction of which the numerator is such accrued number of days and the denominator is the total number of day in such full Rental period) and also to recover forthwith from the Lessee (i) as damages for loss of the bargain and not as a penalty, a sum, with respect to each Item of Equipment, which represents the excess of the present worth, at the time of such termination, of all Rentals for such Item which would otherwise have accrued hereunder from the date of such

termination to the end of the term of this Agreement over the then present worth of the then fair Rental value of such Item for such period computed by discounting from the end of such term to the date of such termination rentals which the Lessor reasonably estimates to be obtainable for the use of the Item during such period, such present worth to be computed in each case on a basis of a 4 1/2% per annum discount, compounded semiannually from the respective dates upon which rentals would have been payable hereunder had this Lease not been terminated, and (11) any damages and expenses including reasonable attorney's fees, in addition thereto which the Lessor shall have sustained by reason of the breach of any covenant or covenants of this Lease, other than for the payment of Rent.

14.2. Cumulative Remedies. The remedies in this Lease provided in favor of the Lessor shall not be deemed exclusive, but shall be cumulative and shall be in addition to all other remedies in its favor existing at law or in equity. The Lessee hereby waives any mandatory requirements of law, now or hereafter in effect, which might limit or modify any of the remedies herein provided, to the extent that such waiver is permitted by law. The Lessee hereby waives any and all existing or future claims of any right to assert any off-set against the rent payments due hereunder, and agrees to make the rent payments regardless of any off-set or claim which may be asserted by the Lessee on its behalf in connection with the lease of the Equipment.

14.3. Lessor's Failure to Exercise Rights. The failure of the Lessor to exercise the rights granted it hereunder upon any occurrence of any of the contingencies set forth herein shall not constitute a waiver of any such right upon the continuation or recurrence of any such contingencies or similar contingencies.

SECTION 15. RETURN OF EQUIPMENT UPON DEFAULT.

15.1. Lessee's Duty to Return. If the Lessor shall terminate this Lease pursuant to Section 14 hereof, the Lessee shall forthwith deliver possession of the Equipment to the Lessor. For the purpose of delivering possession of any Item of Equipment to the Lessor as above required, the Lessee shall at its own cost, expense and risk (except as hereinafter stated):

(a) Forthwith place such Equipment in such reasonable storage place on the Lessee's lines of railroad as the Lessor may designate or, in the absence of such designation, as the Lessee may select;

(b) Permit the Lessor to store such Equipment in such reasonable storage place on the Lessee's lines of railroad for a period not exceeding 90 days at the risk of the Lessee; and

(c) Transport the Equipment, at any time within such 90 days' period, to any place on the lines of railroad operated by the Lessee or to any connecting carrier for shipment, all as the Lessor may reasonably direct upon not less than 30 days' written notice to the Lessee.

15.2. Intention of Parties. The assembling, delivery, storage and transporting of the Equipment as hereinbefore provided are of the essence of this Lease, and upon application to any court of equity having jurisdiction in the premises, the Lessor shall be entitled to a decree against the Lessee requiring specific performance of the covenants of the Lessee so as to assemble, deliver, store and transport the Equipment.

15.3. Lessor Appointed Lessee's Agent. Without in any way limiting the obligations of the Lessee under the foregoing provisions of this Section 15, the Lessee hereby irrevocably appoints the Lessor as the agent and attorney of Lessee, with full power and authority, at any time while the Lessee is obligated to deliver possession of any Items of Equipment to Lessor, to demand and take possession of such Item in the name and on behalf of Lessee from whosoever shall be at the time in possession of such Item.

SECTION 16. ASSIGNMENTS BY LESSOR AND LESSEE: USE AND POSSESSION.

16.1. Assignment. In consideration of the execution by the Lenders of the Loan Agreements with the Lessor and the Agent and any loans by the Lenders thereunder to finance the purchase by the Lessor of the Equipment, and in order to secure the payment of the principal of and interest on the Notes issued under such Loan Agreements according to their tenor and effect, and to secure the payment of such Notes and all principal thereof and interest thereon and all additional amounts and other sums

at any time due and owing from or required to be paid by the Lessor under the terms of such Notes, Part II of this Agreement or such Loan Agreements (the "indebtedness hereby secured") and the performance and observance of all the covenants and conditions of the Lessor in such Notes and in Part II of this Agreement and in such Loan Agreements contained, the Lessor does hereby sell, convey, warrant, mortgage, assign, pledge, grant a security interest in, and hypothecate unto the Security Trustees, their successors in trust and assigns, forever, all and singular the following described properties, rights, interests and privileges (all of which properties hereby mortgaged, assigned and pledged or intended so to be are collectively referred to in this Section 16.1 and in Part II of this Agreement as the "Collateral"), that is to say:

DIVISION I - EQUIPMENT COLLATERAL

All Items of Equipment together with all accessories, equipment parts and appurtenances appertaining or attached to any such Items of Equipment whether now owned or hereafter acquired, and all substitutions, renewals and replacements of and additions, improvements, accessions and accumulations to any and all of such Items of Equipment together with all the Rents, issues, income, profits and avails therefrom, including any proceeds of the sale of such Items of Equipment pursuant to Section 6 of the Acquisition Agreement.

DIVISION II - OTHER COLLATERAL

All right, title and interest of the Lessor, as Lessor, in, under and to this Agreement and all Rents and other sums due and to become due hereunder including any and all extensions or renewals hereof in so far as the same cover or relate to the Equipment and all right, title and interest of the Lessor in and to the amounts payable by the Lessee on account of the purchase price of such Equipment pursuant to Section 6 of the Acquisition Agreement, it being the intent and purpose hereof that the assignment and transfer to such Security Trustees of said Rents and other sums due and to become due from the Lessor under this Agreement and the Acquisition Agreement shall be effective and operative immediately and shall continue in full force and effect and the Security Trustees shall collect and receive said

Rents and other sums for application in accordance with the provisions of Section 24 hereof at all times during the period from and after the date of this Agreement until the indebtedness hereby secured has been fully paid and discharged.

SUBJECT, HOWEVER, in the case of all such mortgages and grants, to (a) the right, title and interest of the Lessee under this Agreement, and (b) the lien of current taxes and assessments not in default, or, if delinquent, the validity of which is being contested in good faith.

TO HAVE AND TO HOLD the Collateral granted to the Security Trustees, respectively, unto the Security Trustees, their successors in trust and assigns, forever; provided always, however, that these presents are upon the express condition that if the Lessor shall pay or cause to be paid all the indebtedness hereby secured and shall observe, keep and perform all the terms and conditions, covenants and agreements in Part II of this Agreement and in the Loan Agreements and the Notes contained, then these presents and the estate hereby granted and conveyed shall cease and this Agreement shall become null and void as between the Lessor and the Security Trustees, otherwise to remain in full force and effect.

The Rental and other sums payable by the Lessee which are the subject matter of the mortgage and assignment to the Security Trustees as provided by this Section shall be paid to the Security Trustees. Without limiting the foregoing, the Lessee further acknowledges and agrees that (1) the rights of the Security Trustees, respectively, in and to the sums payable by the Lessee under any provisions of this Agreement shall not be subject to any abatement whatsoever, and shall not be subject to any defense, set-off, counterclaim or recoupment whatsoever whether by reason of or defect in Lessor's title, or any interruption from whatsoever cause (other than from a wrongful act of such Security Trustees) in the use, operation or possession of the Equipment or any part thereof, or any damage to or loss or destruction of the Equipment or any part thereof, or by reason of any other indebtedness or liability, howsoever and whenever arising, of the Lessor to the Lessee or to any other person, firm or corporation or to any governmental authority or for any cause whatsoever, it being the intent hereof that, except in the event of a wrongful act on the part of the Security Trustees,

the Lessee shall be unconditionally and absolutely obligated to pay such Security Trustees all of the Rents and other sums which are the subject matter of the mortgage and assignment to the Security Trustees, respectively, as provided for by this Section, and (ii) the Security Trustees shall have the sole right to exercise all rights, privileges and remedies (either in the name of the Lenders or in the name of the Lessor for the use and benefit of the Security Trustees) which by the terms of this Agreement are permitted or provided to be exercised by the Lessor including but not limited to (a) the right to make all waivers and agreements, and (b) the right to give all notices, consents and releases, and (c) the right to take such action upon an Event of Default referred to in Section 14.1 hereof as shall be permitted by the terms of this Agreement or by law.

16.2. Lessee's Rights to the Equipment. So long as the Lessee shall not be in default under this Agreement, the Lessee shall be entitled to the possession and use of the Equipment in accordance with the terms of this Agreement, but, without the prior written consent of the Lessor, the Lessee shall not assign, transfer or encumber its leasehold interest under this Agreement in any of the Equipment (except to the extent that the provisions of any mortgage now or hereafter created on any of the lines of railroad of the Lessee may subject such leasehold interest to the lien thereof). The Lessee shall not, without the prior written consent of the Lessor, part with the possession or control of, or suffer or allow to pass out of its possession or control, any of the Equipment, except to the extent permitted by the provisions of Sections 16.3, 16.4 or 16.5 hereof.

16.3. Use and Possession on Lines Other Than Lessee's. So long as the Lessee shall not be in default under this Agreement, the Lessee shall be entitled to the possession of the Equipment and to the use thereof by the Lessee or by any other corporation which constitutes one of the "National Railways" as that term is defined in the Canadian National Railways Act, or upon lines of railroads over which the Lessee or any such corporation has trackage or other operating rights or over which equipment of the Lessee or any such corporation is regularly operated pursuant to contract and also to permit the sub-letting or lease temporarily or to permit the emergency use by other parties of any Item of Equipment in the normal course of business, but only upon and subject to all the terms and conditions of this Agreement. No assignment, sublease or interchange entered into by the Lessee hereunder shall relieve the Lessee of any liability or obligations hereunder which shall be and remain those of a principal and not a surety.

16.4. Merger or Consolidation of Lessee. Nothing in this Section 16 shall be deemed to restrict the right of Lessee to assign or transfer its leasehold interest under this Agreement in the Equipment or possession of the Equipment to any corporation (which shall have duly assumed the obligations hereunder of Lessee) into or with which the Lessee shall have become merged or consolidated or which shall have acquired the property of Lessee as an entirety or substantially as an entirety.

16.5. Sublease to National Railways. Nothing in this Section 16 shall be deemed to restrict the right of the Lessee to sublease the Equipment to any corporation which constitutes one of the "National Railways" as that term is defined in the Canadian National Railways Act. No such sublease shall relieve the Lessee of any liability or obligation hereunder which shall be and remain those of a principal and not a surety.

SECTION 17. REPRESENTATIONS AND WARRANTIES.

17.1. The Lessor and the Agent each for itself represent and warrant as follows:

(a) On the delivery date for each Item of Equipment the Lessor shall have such title thereto as it received from the manufacturer or supplier thereof.

(b) Any sale, assignment, transfer, mortgage or other disposition which the Lessor or the Agent may make of this Agreement or any Item of Equipment covered thereby, whether prior or subsequent to execution and delivery thereof, shall be made expressly subject to the terms and provisions of this Agreement and all rights of the Lessee thereunder.

(c) Neither the Lessor nor the Agent have created nor will they create any claim, lien or encumbrance against any Item of Equipment so as to interfere with or impair

(i) the Lessee's possession and use of such Item of Equipment in accordance with the terms of this Agreement; or

(ii) the title to any Item of Equipment which may be transferred or conveyed to the Lessee under other provisions of this Agreement.

17.2. The Lessee represents and warrants the truth and accuracy of the matters contained in paragraphs (a) through (f) of Section 18.1 hereof.

SECTION 18. OPINIONS OF COUNSEL FOR LESSEE AND LESSOR.

18.1. Opinion of Counsel for Lessee. Concurrently with the delivery and acceptance of the first Item of Equipment hereunder, the Lessee will deliver to the Lessor five counterparts of the written opinion of counsel for the Lessee addressed to the Lessor, the Agent, the Lenders and to the Security Trustees to the effect that:

(a) The Lessee is a corporation legally incorporated and validly existing, in good standing, under the laws of Canada;

(b) The Lessee has the corporate or other power and authority to own its property and carry on its business as now being conducted and is duly qualified to do business as a foreign corporation in all states in which such qualification is necessary to carry out the terms of this Agreement.

(c) This Agreement and the Acquisition Agreement have been duly authorized, executed and delivered by the Lessee and constitute the valid, legal and binding agreements of the Lessee enforceable in accordance with their respective terms subject to applicable bankruptcy, reorganization, insolvency and moratorium laws from time to time in effect;

(d) Once this Agreement is deposited in the office of the Registrar-General of Canada and upon the giving of notice of such deposit in the Canada Gazette in accordance with Section 86 of the Railway Act of Canada, no other filing, recording or depositing or notices in respect thereof is necessary to protect the Lessor's title to the Equipment in Canada;

(e) No approval, consent or withholding of objection is required from any Canadian regulatory body with respect to the entering into or performance of the Acquisition Agreement or this Agreement;

(f) The execution and delivery by Lessee of this Agreement and the Acquisition Agreement do not violate any

provision of any law, any order of any court or Canadian governmental agency, the Act of Incorporation or By-laws of the Lessee, or any indenture, agreement, or other instrument to which Lessee is a party or by which it, or any of its property is bound, and will not be in conflict with, result in the breach of, or constitute (with due notice and/or lapse of time) a default under any indenture, agreement, or other instrument, or result in the creation or imposition of any lien, charge or encumbrance of any nature whatsoever upon any of the property or assets of Lessee, except as contemplated and permitted hereby; and

(g) As to any other matters which Lessor shall reasonably request.

18.2. Opinion of Counsel for Lessor. Concurrently with the delivery of the opinion of counsel for the Lessee as provided in Section 18.1 hereof, the Lessor will deliver to the Lessee five counterparts of the written opinion of General Counsel for the Agent and special counsel for the Lessor, in scope and substance satisfactory to the Lessee with respect to the matters set forth in (a), (b), (c) and (f) of such Section 18.1 as such matters may appropriately pertain to the Lessor, the Agent or both of them.

SECTION 19. INTEREST ON OVERDUE RENTALS AND AMOUNTS PAID BY LESSOR.

Anything to the contrary herein contained notwithstanding any nonpayment of Rentals due hereunder, or amounts expended by the Lessor on behalf of the Lessee, shall result in the obligation on the part of the Lessee to pay also an amount equal to 8 7/8% (or the lawful rate, whichever is less) of the overdue Rentals and amounts expended for the period of time during which they are overdue or expended and not repaid.

SECTION 20. OPTION TO PURCHASE.

20.1. Right of Lessee to Purchase. Provided that the Lessee is not in default, Lessee shall have the right to purchase all or any portion of the Items of Equipment then leased hereunder at the expiration of the original or any renewal lease term at a price equal to the then "fair market value" (as defined). The Lessee shall give the Lessor written notice 180 days prior to the end of the original or any renewal lease term of its election to exercise the purchase option provided for in this Section, which notice shall designate the Items of Equipment (the "Purchased Equipment") in respect of which the Lessee is exercising such purchase option.

Payment of the option price shall be made at the place of payment specified in Section 2 hereof in United States funds there current against delivery of a bill of sale transferring and assigning to the Lessee all right, title and interest of the Lessor in and to the Purchased Equipment and containing a warranty against liens or claims of persons claiming by, through or under the Lessor except liens and claims which the Lessee assumed or is obligated to discharge under the terms of the Agreement. The Lessor shall not be required to make any representation or warranty as to the condition of the Purchased Equipment or any other matters.

20.2. Fair Market Value. The "fair market value" shall be such amount as is mutually agreed upon by the Lessor and the Lessee; provided that if the Lessor and the Lessee are unable to agree upon the fair market value of the Purchased Equipment within 30 days after receipt by the Lessor of the notice of the Lessee's election to exercise the purchase option, the fair market value shall be determined by a qualified independent appraiser. The term "appraiser" shall mean such independent appraiser as the Lessor and the Lessee may mutually agree upon or, failing such agreement, a panel of three independent appraisers, one of whom shall be selected by the Lessor, the second by the Lessee and the third to be designated by the first and second appraisers so selected. The appraisers shall be instructed to make such determination within a period of thirty days following appointment and shall promptly communicate such determination in writing to the Lessor and Lessee. The determination so made shall be conclusively binding upon the Lessor and Lessee. The expenses and fee of the appraiser shall be borne equally by the Lessor and the Lessee. Upon payment of the purchase price, the Lessor shall, upon request by the Lessee, execute and deliver to the Lessee, or to the Lessee's assignee or nominee, a bill of sale [without warranties] for the Equipment such as will transfer to the Lessee such title to the Equipment as the Lessor derived from the Manufacturer free and clear of all liens, security interests and/or encumbrances arising through the Lessor. The fair market value as finally determined shall bear interest for the period, if any, from the date of expiration of the original or renewal lease term, as the case may be, to the date of payment at the rate of 8% per annum.

20.3. Continuation of Certain Provisions. Notwithstanding any election of the Lessee to purchase, the provisions of Section 11 hereof shall continue in full force and effect until the date of purchase and the passage of ownership of the Equipment purchased by the Lessee upon the date of purchase unless the purchase price has been agreed upon by the parties pursuant to this Section 20, in which event such purchase price shall govern.

20.4. Right of Lessee to Renew. Provided that the Lessee is not in default, the Lessee shall have the option to renew and extend this Lease as to all or any portion of the Items of Equipment then leased hereunder (which option may be exercised concurrently with the exercise of the option to purchase provided for in Section 20.1 hereof) for two additional renewal terms of five years each upon and subject to the terms and conditions herein contained for the original term of this Lease excepting only that the Periodic Rent for each such renewal term, which shall be payable semiannually in advance during each such term, shall be an amount equal to the "fair rental value" (as defined) of such Items of Equipment. Each such renewal term shall commence immediately upon the expiration of the preceding term. The Lessee shall give the Lessor written notice not less than 180 nor more than 270 days prior to the end of the original term or the then current renewal term of its election to exercise either renewal option provided for by this Section 20.4, which notice shall designate the Items of Equipment (the "Renewal Equipment") in respect of which the Lessee is exercising such renewal option.

20.5. Fair Rental Value. The "fair rental value" shall be an amount mutually agreed upon by the Lessor and the Lessee; provided that if the Lessor and the Lessee are unable to agree upon the fair rental value of the Renewal Equipment within 30 days after receipt by the Lessor of the notice of the Lessee's election to exercise any renewal option, the fair rental value shall be determined by a qualified independent appraiser. The term appraiser shall mean such independent appraiser as the Lessor and the Lessee may mutually agree upon or, failing such agreement, a panel of three independent appraisers, one of whom shall be selected by the Lessor, the second by the Lessee and the third to be designated by the first and second appraisers so selected. The appraisers shall be instructed to make such determination within a period of thirty days following appointment and shall promptly communicate such determination in writing to the Lessor and Lessee. The determination so made shall be conclusively binding upon the Lessor and Lessee. The expenses and fee of the appraiser shall be borne equally by the Lessor and the Lessee.

20.6. Return of Equipment. Unless the Lessee has given the Lessor 180 days notice as required in connection with exercise of the foregoing option to purchase or renew, all the Equipment then leased hereunder shall be returned to the Lessor in accordance with Section 13 hereof.

SECTION 21. LIMITATIONS ON LIABILITY OF THE LESSOR TO THE LESSEE.

It is expressly understood and agreed by and between the Lessor, the Agent and the Lessee, anything herein to the contrary

notwithstanding, that each and all of the representations, covenants, undertakings and agreements herein made on the part of the Lessor, while in form purporting to be the representations, covenants, undertakings and agreements of Trust Company for USL, Inc., are nevertheless each and every one of them made and intended not as personal representations, covenants and undertakings and agreements of it in its individual corporate capacity or for the purpose or with the intention of binding it in its individual corporate capacity, but are made and intended for the purpose of binding only the Trust as that term is used in the Trust Agreement; such Trust is the Lessor hereunder, and this Agreement is executed and delivered by Trust Company for USL, Inc., not in its own right but solely in the exercise of the powers conferred upon it as such Trustee; and no liability or responsibility in its individual corporate capacity is assumed by nor shall at any time be asserted or enforceable against such corporation or the Agent, or any incorporator or any past, present or future subscriber to the capital stock of, the Trustee or the Agent, on account of this Agreement or on account of any representation, covenant, undertaking or agreement of such corporation or the Agent in this Agreement contained, either expressed or implied, all such individual corporate liability, if any, being expressly waived and released by the Lessee herein and by all persons claiming by, through or under the Lessee; excepting, however, that the Lessee or any person claiming by, through or under it, making claim hereunder, may look to said Trust for satisfaction of the same.

PART II

Provisions Relating to Mortgage and Assignment Granted by the Lessor to the Security Trustees Under Section 16.1. The provisions of the following Sections 22 through 27 are intended for the benefit, and apply to, the Security Trustees. Part II of this Agreement is hereinafter for convenience referred to as the "Mortgage" and includes Sections 22 through 27 of this Agreement.

SECTION 22. COVENANTS AND WARRANTIES OF THE LESSOR.

The Lessor covenants, warrants and agrees with and for the benefit of the Lenders and the Security Trustees but not with or for the benefit of the Lessee, as follows:

22.1. Lessor's Duties. The Lessor covenants and agrees well and truly to perform, abide by and to be governed and restricted by each and all of the terms, provisions, restrictions, covenants and agreements set forth in the Loan Agreements, and in each and every supplement thereto or amendment thereof which may at any time or from time to time be executed and delivered by the parties thereto or their successor and assigns, to the same extent as though each and all of said terms, provisions, restrictions, covenants and agreements were fully set out herein and as though any amendment or supplement to the Loan Agreements were fully set out in an amendment or supplement to this Mortgage.

22.2. Warranty of Title. The Lessor has the right, power and authority under the Trust Agreement to grant a security interest in the Collateral to the Security Trustees for the uses and purposes set forth in Section 16.1 hereof; and the Lessor will warrant and defend the title to the Collateral against all claims and demands of persons claiming by, through or under the Lessor (excepting only the right, title and interest of the Lessee under the Lease and of persons claiming by, through or under the Lessee).

22.3. Further Assurances. The Lessor will, at its own expense, do, execute, acknowledge and deliver all and every further acts, deeds, conveyances, transfers and assurances necessary or proper for the perfection of the security interest being herein provided for in the Collateral, whether now owned or hereafter acquired.

22.4. After-acquired Property. Any and all property described or referred to in the granting clauses hereof which is hereinafter acquired shall ipso facto, and without any further conveyance, assignment or act on the part of the Lessor or the Security

Trustees become and be, subject to the security interest herein granted as fully and completely as though specifically described herein, but nothing in this Section 22.4 contained shall be deemed to modify or change the obligation of the Lessor under Section 22.3 hereof.

22.5. Recordation and Filing. The Lessor will cause this Agreement and all supplements hereto and all financing and continuation statements and similar notices required by applicable law, at all times to be kept, recorded and filed at its own expense in such manner and in such places as may be required by law in order fully to preserve and protect the rights of the Security Trustees hereunder, and will at its own expense furnish to the Security Trustees promptly after the execution and delivery of this Agreement an opinion of counsel stating that in the opinion of such counsel this Agreement or such supplement, as the case may be, has been properly recorded or filed for record so as to make effective of record the security interest intended to be created hereby.

22.6. Modifications of the Sections 1 through 20. The Lessor will not:

(a) declare a default or exercise the remedies of the Lessor under Section 14 hereof, or terminate, modify or accept a surrender of, or offer or agree to any termination, modification, surrender or termination of, Sections 1 through 20 of this Agreement (except as otherwise expressly provided herein) or by affirmative act consent to the creation or existence of any security interest or other lien to secure the payment of indebtedness upon the leasehold estate created by the Lease or any part thereof; or

(b) receive or collect or permit the receipt or collection or any rental payment under Section 2 or Section 11 hereof prior to the date for payment thereof provided for by the Lease or assign, transfer or hypothecate (other than to the Security Trustees hereunder) any such rent payment then due or to accrue in the future except that this restriction shall not apply to the Daily Interim Rent and that portion of the twenty-sixth through and including the thirtieth installments of Periodic Rent for an Item of Equipment equal to 1.38445% of the cost of such Item of Equipment; provided that in the event notice shall be given to Lessee pursuant to Section 28.4 hereof and the Alternate Schedules shall accordingly be in effect, this restriction shall not apply to Daily Interim Rent and that portion of the eleventh through and including the twenty-fifth installments of Periodic Rent equal to 0.0749% of the cost of each Item of Equipment and the twenty-sixth through and including the thirtieth installments of Periodic Rent equal to 1.45935% of the cost of each Item of Equipment; or

(c) sell, mortgage, transfer, assign or hypothecate (other than to the Security Trustees hereunder) its interest in the Equipment or any part thereof or in any amount to be received by it from the use or disposition of the Equipment, except that this restriction shall not apply to the Daily Interim Rent.

22.7. Power of Attorney in respect of the Lease. Lessor does hereby irrevocably constitute and appoint the Security Trustees, its true and lawful attorney with full power of substitution for it and in its name, place and stead, to ask, demand, collect, receive, receipt for, sue for, compound and give acquittance for any and all rents, income and other sums which are assigned under Division II of Section 16.1 hereof to the Security Trustees with full power to settle, adjust or compromise any claim thereunder as fully as the Lessor could itself do, and to endorse the name of the Lessor on all commercial paper given in payment or in part payment thereof, and in its discretion to file any claim or take any other action or proceedings, either in its own name or in the name of the Lessor or otherwise, which the Security Trustees may deem necessary or appropriate to protect and preserve the right, title and interest of the Security Trustees in and to such rents and other sums and the security intended to be afforded hereby.

SECTION 23. RELEASE OF PROPERTY.

23.1 Release Upon Casualty or Purchase. So long as no default referred to in Section 14 hereof has occurred and is continuing, the Security Trustees shall execute a release in respect of any Item of Equipment designated by the Lessee for settlement pursuant to Section 11 hereof upon receipt of: (i) written notice from the Lessee designating the Item of Equipment in respect of which the Lease will terminate and (ii) settlement by the Lessee for such Item of Equipment in compliance with Section 11, or (iii) any Item of Equipment purchased by the Lessee pursuant to Section 6 of the Acquisition Agreement upon receipt from the Lessee of the total amount provided for by clause (iii) of said Section 6.

23.2. Release of Security Interest. The Security Trustees shall release the Mortgage and the lien granted by Section 16.1 hereof and all of their rights hereunder by proper instrument or instruments upon presentation of satisfactory evidence that all indebtedness secured hereby has been fully paid or discharged.

SECTION 24. APPLICATION OF ASSIGNED RENTALS AND CERTAIN OTHER MONEYS RECEIVED BY THE SECURED PARTY.

24.1. Application of Rents. As more fully set forth in Division II of Section 16.1 hereof the Lessor has hereby granted

to the Security Trustees a security interest in rents, issues, profits, income, and other sums due and to become due from the Lessee under this Agreement in respect of the Equipment as security for the Notes. So long as no event of default as defined in Section 25 hereof has occurred and is continuing:

(a) The amounts from time to time received by the Security Trustees which constitute payment of the installments of Periodic Rent under the Lease shall be applied first, to the payment of the installments of principal and interest on the Notes which have matured or will mature on or before the due date of the installments of Periodic Rent which are received by the Security Trustees, and then the balance, if any, of such amounts shall be paid to or upon the order of the Lessor within 30 days of the receipt thereof; and

(b) The amounts from time to time received by the Security Trustees which constitute settlement by the Lessee of the "Casualty Value" for any Item of Equipment pursuant to Section 11 hereof shall be paid and applied on the Notes, all to such manner and in such amounts so that after giving effect to such application and the release of the Item of Equipment from this Agreement:

(i) The aggregate principal amount remaining unpaid on the Notes does not exceed the "Present Value of Rents" as hereinafter defined in respect of all other Equipment which then remains subject to this Agreement; and

(ii) Each of the remaining installments of the Notes shall be reduced in the proportion that the principal amount of the prepayment bears to the unpaid principal amount of the Notes immediately prior to the prepayment.

Any amounts in excess of the "Present Value of Rents" as hereinafter defined in respect of any Item of Equipment for which settlement is made by the Lessee pursuant to Section 11 hereof shall be released to or upon the order of the Lessor;

(c) The amount received by the Security Trustees which constitutes payment of the purchase price of the Equipment pursuant to Section 7 of the Acquisition Agreement shall be applied first, to the payment of the outstanding principal amount of the Notes, plus accrued interest thereon, but without premium, and the balance, if any, of such amounts, shall be paid to or upon the order of the Lessor.

24.2. Multiple Notes. If more than one Note is outstanding at the time any application is made pursuant to Section 24.1, the application shall be made on all outstanding Notes ratably in accordance with the principal amount remaining unpaid thereon and on the installments of each Note, respectively, in the manner provided for by paragraphs (a) and (b) of Section 24.1.

24.3. Present Value of Rent. The term "Present Value of Rents" for any Item of Equipment shall mean as of any date an amount equal to the aggregate Periodic Rent in respect of such Item (after deducting from the last five installments thereof an amount equal to 1.38445% of the total cost of such Item; provided that in the event notice shall be given to Lessee pursuant to Section 28.4 hereof and the Alternate Schedules shall accordingly be in effect, the amount thereafter to be deducted from the eleventh through and including the twenty-fifth installments of Periodic Rent shall be an amount equal to 0.0749% of the total cost of such Item and the amount thereafter to be deducted from the last five installments shall be an amount equal to 1.45935% of the total cost of such Item) reserved for the balance of the term originally provided for in the Lease and remaining unpaid as of the close of business on such date, discounted on the basis of an 7 7/8% per annum interest factor compounded semi-annually to the respective dates on which the Periodic Rent is payable, with all such discounts to be computed on the basis of a 360-day year of 12 30-day months.

24.4. Default. If an event of default referred to in Section 25 hereof has occurred and is continuing, all amounts received by the Security Trustees pursuant to Section 16.1 hereof shall be applied in the manner provided for in Section 24 hereof in respect of proceeds and avails of the Collateral.

SECTION 25. DEFAULTS AND OTHER PROVISIONS.

25.1. Events of Default. The term "event of default" for all purposes of this Part II and the enforcement by the Security Trustees of rights and remedies against the Lessor shall mean one or more of the following:

(a) Default in payment of an installment of the principal of, or interest on, any Note when and as the same shall become due and payable, whether at the due date thereof or at the date fixed for prepayment or by acceleration or otherwise, and any such default shall continue unremedied for 10 calendar days; or

(b) Any "event of default" as set forth in Section 14 hereof; or

(c) Default on the part of the Lessor or the Agent in the due observance or performance of any covenant or agreement to be observed or performed by either the

Lessor or said Agent under this Mortgage or the Loan Agreements, and such default shall continue unremedied for 30 calendar days; or

(d) Any representation or warranty made herein or in the Loan Agreements or in any report, certificate, financial or other statement furnished in connection with this Agreement or the Loan Agreements, or the transactions contemplated thereby shall prove to be false or misleading in any material respect; or

(e) Any claim, lien or charge (other than the rights and interests of the Lessee and liens, charges and encumbrances which the Lessee is obligated to discharge under Section 9 hereof) shall be asserted against or levied or imposed upon the Equipment which is prior to or on a parity with the lien of the Security Trustees under this Agreement, and such claim, lien or charge shall not be discharged or removed within 30 calendar days after written notice from the Security Trustees or the holder of any Note to the Lessor and the Lessee demanding the discharge or removal thereof.

25.2. Security Trustees' Rights. The Lessor agrees that when any "event of default" as defined in Section 25.1 hereof has occurred and is continuing, but subject always to Section 26 hereof, the Security Trustees shall have the rights, options, duties and remedies of a secured party, and the Lessor shall have the rights and duties of a debtor, under the Uniform Commercial Code (regardless of whether such Code or a law similar thereto has been enacted in a jurisdiction wherein the rights or remedies are asserted) and without limiting the foregoing the Security Trustees may exercise any one or more or all, and in any order, of the remedies hereinafter set forth, it being expressly understood that no remedy herein conferred is intended to be exclusive of any other remedy or remedies; but each and every remedy shall be cumulative and shall be in addition to every other remedy given herein or now or hereafter existing at law or in equity or by statute.

(a) The Security Trustees may, by notice in writing to the Lessor declare the entire unpaid balance of the Notes to be immediately due and payable; and thereupon all such unpaid balance, together with all accrued interest thereon, shall be and become immediately due and payable;

(b) Subject always to the then existing rights, if any, of the Lessee under this Agreement, the Security Trustees personally or by agents or attorneys, shall have the right (subject to compliance with any applicable mandatory legal requirements) to take immediate possession of the Collateral, or any portion thereof, and for that purpose may pursue the same wherever it may be found, and may enter any of the premises of the Lessor, with or without notice, demand, process of law or legal procedure, and search for, take possession of, remove, keep and store the same, or use and operate or lease the same until sold;

(c) Subject always to the then existing rights, if any, of the Lessee under this Agreement, the Security Trustees may, if at the time such action may be lawful and always subject to compliance with any mandatory legal requirements, either with or without taking possession and either before or after taking possession, and without instituting any legal proceedings whatsoever, and having first given notice of such sale by registered mail to the Lessor once at least ten days prior to the date of such sale, and any other notice which may be required by law, sell and dispose of the Collateral, or any part thereof, at public auction to the highest bidder, in one lot as an entirety or in separate lots, and either for cash or on credit and on such terms as the Security Trustees may determine, and at any place (whether or not it be the location of the Collateral or any part thereof) designated in the notice above referred to. Any such sale or sales may be adjourned from time to time by announcement at the time and place appointed for such sale or sales, or for any such adjourned sale or sales, without further published notice, and the Security Trustees or the holder or holders of the Notes, or of any interest therein, may bid and become the purchaser at any such sale;

(d) The Security Trustees may proceed to protect and enforce this Security Agreement and said Notes by suit or suits or proceedings in equity, at law or in bankruptcy, and whether for the specific performance of any covenant or agreement herein contained or in execution or aid of any power herein granted; or for foreclosure hereunder, or for the appointment of a receiver or receivers for the mortgaged property or any part thereof, or, subject to the provisions of Section 26 hereof, for the recovery of judgment for the indebtedness hereby secured or for the enforcement of any other proper legal or equitable remedy available under applicable law;

(e) Subject always to the then existing rights, if any, of the Lessee hereunder, the Security Trustees may proceed to exercise all rights, privileges and remedies of the Lessor under Sections 1 through 20 of this Agreement, and may exercise all such rights and remedies either in the name of the Security Trustees or in the name of the Lessor for the use and benefit of the Security Trustees.

25.3. Acceleration Clause. In case of any sale of the Collateral, or of any part thereof, pursuant to any judgment or decree of any court or otherwise in connection with the enforcement of any of the terms of this Mortgage, the principal of the Notes, if not previously due, and the interest accrued thereon, shall at once become and be immediately due and payable; also in the case of any such sale, the purchaser or purchasers, for the purpose of making settlement for or payment of the purchase price, shall be entitled to turn in and use the Note and any claims for interest matured and unpaid thereon, in order that there may be credited as paid on the purchase price the sum apportionable and applicable to the Notes including principal and interest thereof out of the net proceeds of such sale after allowing for the proportion of the total purchase price required to be paid in actual cash.

25.4. Waiver by Lessor. The Lessor covenants that it will not at any time insist upon or plead, or in any manner whatever claim or take any benefit or advantage of, any stay or extension law now or at any time hereafter in force, nor claim, take, nor insist upon any benefit or advantage of or from any law now or hereafter in force providing for the valuation or appraisal of the Collateral or any part thereof, prior to any sale or sales thereof to be made pursuant to any provision herein contained, or to the decree, judgment or order of any court of competent jurisdiction; nor, after such sale or sales, claim or exercise any right under any statute now or hereafter made or enacted by any state or otherwise to redeem the property so sold or any part thereof, and hereby expressly waives for itself and on behalf of each and every person, except decree or judgment creditors of the Lessor acquiring any interest in or title to the Collateral or any part thereof subsequent to the date of this Agreement, all benefit and advantage of any such law or laws, and covenants that it will not invoke or utilize any such law or laws or otherwise hinder, delay or impede the execution of any power herein granted and delegated to the Security Trustees, but will suffer and permit the execution of every such power as though no such power, law or laws had been made or enacted.

25.5. Effect of Sale. Any sale, whether under any power of sale hereby given or by virtue of judicial proceedings, shall operate to divest all right, title, interest, claim and demand whatsoever, either at law or in equity, of the Lessor in and to the property sold shall be a perpetual bar, both at law and in equity, against the Lessor, its successors and assigns, and against any and all persons claiming the property sold or any part thereof under, by or through the Lessor, its successors or assigns (subject, however, to the then existing rights, if any, of the Lessee under the Lease).

25.6. Application of Sale Proceeds. The purchase money proceeds and/or avails of any sale of the Collateral, or any part thereof, and the proceeds and the avails of any remedy under this Section 25 shall be paid to and applied as follows:

(a) To the payment of costs and expenses of foreclosure or suit, if any, and of such sale, and of all proper expenses, liability and advances, including legal expenses and attorneys' fees, incurred or made hereunder by the Security Trustees, or the holder or holders of the Note, and of all taxes, assessments or liens superior to the lien of these presents, except any taxes, assessments or other superior lien subject to which said sale may have been made;

(b) To the payment to the holder or holders of the Notes of the amount then owing or unpaid on the Notes for principal and interest;

(c) To the payment of the surplus, if any, to the Lessor, its successors and assigns, or to whomsoever may be lawfully entitled to receive the same.

25.7. Discontinuance of Remedies. In case the Security Trustees shall have proceeded to enforce any right under this Security Agreement by foreclosure, sale, entry or otherwise, and such proceedings shall have been discontinued or abandoned for any reason or shall have been determined adversely, then and in every such case the Lessor, the Security Trustees and the holders of the Notes shall be restored to their former positions and rights hereunder with respect to the property subject to the security interest created under this Agreement.

25.8. Cumulative Remedies. No delay or omission of the Security Trustees or of the holder of any Note to exercise any right or power arising from any default on the part of the Lessor, shall

exhaust or impair any such right or power or prevent its exercise during the continuance of such default. No waiver by the Security Trustees, or the holder of any Note of any such default, whether such waiver be full or partial, shall extend to or be taken to affect any subsequent default, or to impair the rights resulting therefrom except as may be otherwise provided herein. No remedy hereunder is intended to be exclusive of any other remedy but each and every remedy shall be cumulative and in addition to any and every other remedy given hereunder or otherwise existing; nor shall the giving, taking or enforcement of any other or additional security, collateral or guaranty for the payment of the indebtedness secured under this Agreement operate to prejudice, waive or affect the security of this Agreement or any rights, powers or remedies hereunder, nor shall the Security Trustees or holder of any of the Notes be required to first look to, enforce or exhaust such other or additional security, collateral or guaranties.

SECTION 26. SUCCESSOR SECURITY TRUSTEES AND OTHER PROVISIONS.

26.1. The Security Trustees shall not be answerable for the default or misconduct of any agent or attorney appointed in pursuance hereof if such agent or attorney shall have been selected with reasonable care, or for anything whatsoever in connection with this Security Agreement or the Notes or the proceeds thereof except for its own willful misconduct or negligence, nor shall the Security Trustees be under any obligation to take any action toward the execution or enforcement of the trusts hereby created which in its opinion shall be likely to involve expense or liability, unless as often as required the holder or holders of the Notes shall furnish indemnity satisfactory to the Security Trustees against such expense or liability.

26.2. The Security Trustees shall be entitled to reasonable compensation for all services rendered in and about the administration of the trusts herein provided for and in and about foreclosure, enforcement or other protection of this Security Agreement or the lien hereof, and the Lessor agrees to pay such compensation and to indemnify the Security Trustees against any liability or damages incurred or sustained by it under this Security Agreement. Without limiting the foregoing, the Security Trustees shall have a lien for such compensation and indemnity as well as for all out-of-pocket expenses and counsel fees and court costs incurred by the Security Trustees in any foreclosure, enforcement or other protection of this Security Agreement or the lien hereof, on the Collateral and the trust estate prior to the lien for the benefit of the Notes.

26.3. The Security Trustees shall not be responsible for any recitals herein or in the Loan Agreements or for insuring the Collateral, or for the recording, filing or refiling of this Security Agreement, or of any supplemental or further mortgage or trust deed, nor shall the Security Trustees be bound to ascertain or inquire as to the performance or observance of any covenants, conditions or agreements on the part of the Lessor contained herein or in the Loan Agreements, and the Security Trustees shall be deemed to have knowledge of any default on the part of the Lessor in the performance or observance of any such covenants, conditions or agreements only upon receipt of written notice thereof from the Lessor or one of the holders of the Notes; provided, however, that upon receipt by the Security Trustees of such written notice from the Lessor or one of the holders of the Notes, the Security Trustees shall promptly notify all holders of Notes of such notice and the default referred to therein.

26.4. Subject to the provisions of Section 26.1 hereof, the Security Trustees shall not be liable for any action taken or omitted to be taken in good faith and believed by it to be within the discretion or power conferred upon the Security Trustees by this Security Agreement, or be responsible for the consequences of any oversight or error of judgment, and the Security Trustees shall be protected in acting upon any notice, consent, certificate or other instrument believed by it to be genuine and correct and to have been signed by the proper person or persons and in conformity with the provisions of this Agreement.

26.5. Notwithstanding anything elsewhere in this Security Agreement contained, the Security Trustees shall have the right, but shall not be required, to demand in respect of withdrawal of any cash, the release of any property, the subjection of any after acquired property to the lien of this Security Agreement, or any other action whatsoever within the purview hereof, any showings, certificates, opinions, appraisals or other information by the Security Trustees deemed necessary or appropriate in addition to the matters by the terms hereof required as a condition precedent to such action.

26.6. All moneys received by the Security Trustees shall, until used or applied as herein provided, be held in trust for the purposes for which they were received, but need not be segregated in any manner from any other moneys, except to the extent required by law, and may be deposited by the Security Trustees under such general conditions as may be prescribed by law in the Corporate Security Trustee's general banking department, and the Security Trustees shall be under no liability for interest on any moneys

received by them hereunder. The Corporate Security Trustee and any affiliated corporation may become the owner of any Note secured hereby, or the Corporate Security Trustee may act as depositary or a custodian in respect to other securities of the Lessor or any affiliated corporation, all with the same rights which it would have if not the Corporate Security Trustee.

26.7. The Corporate Security Trustee may resign and be discharged of the trusts hereby created by giving notice specifying the date when such resignation shall take effect to the Lessor and to the holders of the Notes. Such resignation shall take effect on the day specified in such notice (being not less than 30 days after the first mailing of such notice) unless previously a successor trustee shall have been appointed as hereinafter provided, in which event such resignation shall take effect immediately upon the appointment of such successor.

The Corporate Security Trustee may be removed and/or a successor corporate security trustee may be appointed at any time by an instrument or concurrent instruments in writing signed and acknowledged by the holders of a majority in principal amount of the Notes and delivered to the Corporate Security Trustee and to the Lessor and, in the case of appointment of a successor corporate security trustee, to such successor corporate security trustee.

Each corporate security trustee appointed in succession of the Corporate Security Trustee named in this Security Agreement, or its successor in the trust, shall be a trust company or banking corporation having an office in the City of San Francisco, California, in good standing and having a capital and surplus aggregating at least \$25,000,000, if there be such a trust company or banking corporation qualified, able and willing to accept the trust upon reasonable or customary terms.

26.8. Any company into which the Corporate Security Trustee, or any successor to it in the trust created by this Security Agreement, may be merged or converted or with which it or any successor to it may be consolidated, or any company resulting from any merger or consolidation to which the Corporate Security Trustee or any successor to it shall be a party (provided such company shall be a corporation organized under the laws of the State of California or of the United States of America, having a capital and surplus of at least \$25,000,000), shall be the successor to the Corporate Security Trustee under this Security Agreement without the execution or filing of any paper or any further act on the part of any of the parties hereto. The Lessor covenants that in case of any such merger, consolidation or conversion it will, upon the request of the

merged, consolidated or converted corporation, execute, acknowledge and cause to be recorded or filed suitable instruments in writing to confirm the estates, rights and interest of such corporation as trustee under this Security Agreement.

26.9. The Individual Security Trustee may resign and be discharged of the trusts hereby created by giving notice specifying the date when such resignation shall take effect to the Debtor, to the Corporate Security Trustee and to the holders of the Notes. Such resignation shall take effect on the day specified in such notice (being not less than 30 days after the first mailing of such notice) unless previously a successor individual security trustee shall have been appointed as hereinafter provided, in which event such resignation shall take effect immediately upon the appointment of such successor.

The Individual Security Trustee may be removed and/or successor individual security trustee may be appointed at any time by an instrument or concurrent instruments in writing signed and acknowledged by the holders of a majority in principal amount of the Notes and delivered to the Security Trustees and to the Debtor and, in the case of appointment of a successor individual security trustee, to such successor individual security trustee.

If at any time the Individual Security Trustee or any of his respective successors shall become incapable of acting, or if for any reason either office of individual security trustee shall become vacant, a successor to the Individual Security Trustee shall forthwith be appointed by the Corporate Security Trustee or, in the event that the Corporate Security Trustee shall fail to make such appointment within 60 days after the occurrence of such incapacity or vacancy, by the holders of a majority in principal amount of the Notes.

26.10. Should any deed, conveyance or instrument in writing from the Lessor be required by any successor security trustee for more fully and certainly vesting in and confirming to such new security trustee such estates, rights, powers and duties, then upon request any and all such deeds, conveyances and instruments in writing shall be made, executed, acknowledged and delivered, and shall be caused to be recorded and/or filed, by the Lessor.

26.11. Any new security trustee appointed pursuant to any of the provisions hereof shall execute, acknowledge and deliver to the Lessor an instrument accepting such appointment; and thereupon such new security trustee, without any further act, deed or conveyance, shall become vested with all the estates, properties,

rights, powers and trusts of its predecessor in the rights hereunder with like effect as if originally named as a Security Trustee herein; but nevertheless, upon the written request of the Lessor or of the successor security trustee, the security trustee ceasing to act shall execute and deliver an instrument transferring to such successor security trustee, upon the trusts herein expressed, all the estates, properties, rights, powers and trusts of the security trustee so ceasing to act, and shall duly assign, transfer and deliver any of the property and moneys held by such security trustee to the successor security trustee so appointed in its or his place.

SECTION 27. LIMITATIONS ON LIABILITY OF LESSOR, AGENT AND TRUSTOR TO THE SECURITY TRUSTEES.

Anything in this Agreement, the Loan Agreements, the Notes, any certificate, opinion or document of any nature whatsoever to the contrary notwithstanding, neither the Security Trustees, the holder of any Note, nor the successors or assigns of any of said persons, shall have any claim, remedy or right to proceed (in law or in equity) against the Lessor in its individual corporate capacity or against the Trustors, or the Agent or any incorporator or any past, present or future subscriber to the capital stock of, or stockholder, officer or director of the Lessor, the Trustors or the Agent, (excepting for the case of the fraudulent or wilful misconduct of any such party, it being understood that the fraudulent or wilful misconduct of the Trustors shall not be imputed to the Lessor or the Agent) for the payment of any deficiency or any other sum owing on account of the indebtedness evidenced by the Notes or for the payment of any liability resulting from the breach of any representation, agreement or warranty of any nature whatsoever, from any source other than the Collateral, including the sums due and to become due under this Agreement and the Security Trustees, by execution of this Agreement and the holders of the Notes by acceptance thereof waive and release any liability of the Lessor in its individual corporate capacity, the Trustors and the Agent, and any incorporator or any past, present or future subscriber to the capital stock, or stockholder, officer or director of the Lessor, the Trustors and the Agent (except for the case of the fraudulent or wilful misconduct of any such party, it being understood that the fraudulent or wilful misconduct of the Trustors shall not be imputed to the Lessor or the Agent) for and on account of such indebtedness or such liability and the Security Trustees and the holders of the Notes agree to look solely to the Collateral, including the sums due and to become due under this Agreement, for the payment of said indebtedness or the satisfaction of such liability; provided, however, nothing herein contained shall limit, restrict or impair the rights of the Security Trustees to accelerate the maturity of the Notes upon a default thereunder; to bring suit and obtain a judgment against the Lessor on the Notes (provided that neither the Lessor in its individual corporate capacity nor

the Trustors nor the Agent, nor any incorporator or any past, present or future subscriber to the capital stock, or stockholder, officer or director of the Lessor, the Trustors and the Agent, shall have any personal liability on any such judgment and the satisfaction thereof shall be limited to the Collateral, including the sums due and to become due under this Agreement, including any interest therein of the Lessor, the Trustors and the Agent) or to foreclose the lien of this Agreement or otherwise realize upon the Collateral, including the sums due or to become due under this Agreement, including the right to proceed against the Lessee under this Agreement.

PART III

Miscellaneous Provisions Relating to Notices, Governing
Law, and Other Matters.

SECTION 28. MISCELLANEOUS.

28.1. Successors and Assigns. Whenever any of the parties hereto is referred to, such reference shall be deemed to include the heirs, executors, administrators, successors and assigns of such party, and all the covenants, premises and agreements in this Agreement contained by or on behalf of any of the parties thereto, shall bind and inure to the benefit of the respective heirs, executors, administrators, successors and assigns of such party whether so expressed or not.

28.2. Partial Invalidity. The unenforceability or invalidity of any provision or provisions of this Agreement shall not render any other provisions or provisions herein contained unenforceable or invalid, provided that nothing contained in this Section 28.2 shall be construed to be in derogation of any rights or immunities of the Lessor in its fiduciary capacity or in its individual capacity or of the Trustors or of the Agent under Section 27 hereof, or to amend or modify any limitations or restrictions of the Security Trustees or the holder of any Note or their respective successors or assigns under said Section 27.

28.3. Notices. All communications provided for herein shall be in writing and shall be deemed to have been given (unless otherwise required by the specific provisions hereof in respect of any matter) when delivered personally or when deposited in the Canadian certified mails or in the United States mail, registered, postage prepaid, addressed as follows:

If to the Lessor or to
the Agent:

Agent under C.N. Trust No. 5
United States Leasing International,
Inc.
633 Battery Street
San Francisco, California 94111
Attention: Vice President
Lease Underwriting Group
and to
Trust Company for USL, Inc., Trustee
under C.N. Trust No. 5
Oakbrook Executive Plaza
1211 West 22nd Street
Oakbrook, Illinois 60521

If to the Lessee: Canadian National Railway Company
935 LaGauchetiere Street West
Montreal, Canada
Attention: Treasurer

If to the Corporate
Security Trustee
or the Individual
Security Trustees: Wells Fargo Bank, N.A.
P. O. Box 44011
San Francisco, California 94144
Attention: Corporate Trust
Department

or addressed to either party at such other address as such party shall hereafter furnish to the other party in writing. A copy of any notice required or permitted to be given to the Lessor shall also be furnished in the same manner as above, addressed to the Agent at the above address and to the Trustors as follows:

Birmingham Trust National Bank
112-118 North 20th Street
Birmingham, Alabama 35202
Attention: Ralph Cook
Executive Vice President

Union Trust Company of Maryland
Baltimore and St. Paul Streets
Baltimore, Maryland 21203
Attention: William Ryland
Vice President

Idaho First National Bank
c/o Idaho First Lease Co.
10th and Idaho Streets
Boise, Idaho 83707
Attention: Stephen Collins

If any subsequent holder of any Note shall have presented the same to the Lessor for inspection accompanied by a written designation of the address to which notice in respect of such Note is to be given, then wherever herein it is provided that notice shall be given to the holder or holders of the Notes, the notice shall be addressed to such holder at the address so given but unless and until such subsequent holder or holders shall so present a Note to the Lessor and designate the address, all communications herein

provided to be made or given to the holder or holders of the Notes shall be sufficiently given if addressed to the Secured Party to whom such Notes were originally delivered at its address above given.

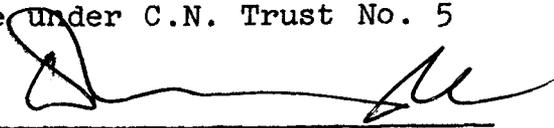
28.4. Amendment and Substitution of Schedules. Attached hereto are copies of Schedule A-I and Schedule C-I (the "Original Schedules") and Schedule A-II and Schedule C-II (the "Alternate Schedules"). From and after the date of execution hereof, references herein to Schedules A and C respectively, shall mean Schedule A-I and Schedule C-I, respectively, and the Daily Interim Rental and Periodic Rent and the Casualty Value shall be determined as set forth in said Original Schedules; provided, however, in the event that, on or before the due date of the 10th installment of Periodic Rent, the Lessor or the Agent shall notify the Lessee (a copy of which notice shall be furnished to the Secured Party) that the Trustor is not entitled in determining its Federal income tax liability to take a deduction in respect of the depreciation of each Item of Equipment over a 14 year Asset Guideline Period, using Asset Guideline Class 40.1, but such deduction must be taken over a 15 year Asset Guideline Period using Asset Guideline Class 00.25 under Section 167(m) of the Internal Revenue Code of 1954, as amended, and under the Regulations to be promulgated thereunder and under Rev. Proc. 72-10, then from and after the giving of such notice, all references herein to Schedule A and Schedule C, respectively, shall mean Schedule A-II and Schedule C-II, respectively, and the Daily Interim Rental and Periodic Rent and the Casualty Value shall be determined as set forth in said Alternate Schedules. Any aggregate increase in Daily Interim Rent shall be paid in the next following Periodic Rent payment date.

28.5. Execution in Counterparts. This Agreement may be executed, acknowledged and delivered in any number of counterparts, each of such counterparts constituting an original but all together only one Agreement.

28.6. Governing Law. This Agreement shall be construed and enforced in accordance with and governed by the laws of the State of Illinois; provided, however, that the parties shall be entitled to all rights conferred by any applicable statute, rule or regulation of the Dominion of Canada or the United States of America.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective officers thereunder duly authorized and their corporate seals to be hereto affixed as of the day and year first above written.

TRUST COMPANY FOR USL, INC.
As Trustee under C.N. Trust No. 5

By 
Its _____
LESSOR

(CORPORATE SEAL)

Attest:

Joanne L. Miller
ASST. Secretary

CANADIAN NATIONAL RAILWAY COMPANY

By *C. H. Bailey*
Its Vice President
LESSEE

E. Hamman
General Manager

PROVED TO FORM (CORPORATE SEAL)

Attest:
[Signature]
LICITOR
Assistant Secretary

UNITED STATES LEASING INTERNATIONAL, INC.

By *Lesa Wakeman*
Its Vice President
AGENT FOR LESSOR

(CORPORATE SEAL)

Attest:

Joanne L. Miller
ASST. Secretary

WELLS FARGO BANK, N.A.

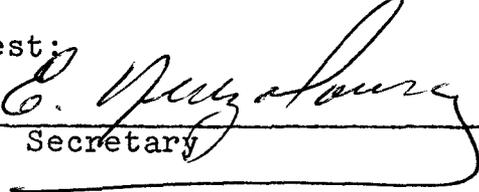
(CORPORATE SEAL)

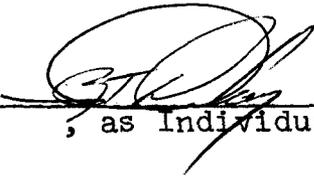
By


Trust Officer

Attest:

ASSISTANT


Secretary


, as Individual Trustee

Attachments

- Schedule A - Description of Equipment
- Schedule B - Certificate of Acceptance
- Schedule C - Casualty Value

EQUIPMENT DESCRIPTION

MANUFACTURER: General Motors of Canada Limited
[Diesel Division]

PLANT OF MANUFACTURER: London, Ontario

DESCRIPTION OF EQUIPMENT: 42 2000 H.P. Gp-38-2 Diesel Electric Locomotives, bearing identifying numbers CN 5519 through CN 5560 both inclusive.

UNIT PRICE: U.S. \$339,022.7259
TOTAL PRICE: U.S. \$14,238,954.49 for all 42 items

DELIVER TO: Canadian National Railway Company,
as designated by the Railroad

OUTSIDE DELIVERY DATE: July 25, 1973

LEASE TERM: 15 years commencing July 25, 1973

PERIODIC RENT PAYMENTS: Ten (10) semi-annual payments, each in arrears, at U.S. \$10,946.20 per locomotive, or an aggregate of U.S. \$459,740.23 for all 42 locomotives, followed by twenty (20) semi-annual payments, each in arrears, at U.S. \$21,200.79 per locomotive, or an aggregate of U.S. \$890,433.18 for all 42 locomotives.

DAILY INTERIM RENT: U.S. \$93.401 per day per locomotive.

All above U.S. dollar figures are based on an assumed conversion exchange of U.S. \$1 equal to Can. \$1.00. In the event the final price of any locomotive covered by this Schedule is greater or less than the amount shown above in U.S. Dollars, the Periodic Rent and Daily Interim Rent for such Item shall be proportionately increased or decreased, provided that the final price for 42 locomotives must not exceed \$14,238,954.49 in United States Dollars.

SCHEDULE A-I
(to Lease --- Security Agreement)

CN. Trust No. 5
(14- year Guideline Basis)

EQUIPMENT DESCRIPTION

MANUFACTURER: General Motors of Canada Limited
[Diesel Division]

PLANT OF MANUFACTURER: London, Ontario

DESCRIPTION OF EQUIPMENT: 42 2000 H.P. GP-38-2 Diesel Elec-
tric Locomotives, bearing identify-
ing numbers CN 5519 through CN 5560
both inclusive.

UNIT PRICE: U.S. \$339,022.7259 per locomotive
TOTAL PRICE: U.S. \$14,238,954.49 for all 42 items

DELIVER TO: Canadian National Railway Company,
as designated by the Railroad

OUTSIDE DELIVERY DATE: July 25, 1973

LEASE TERM: 15 years commencing July 25, 1973

PERIODIC RENT PAYMENTS: Ten (10) semi-annual payments, each
in arrears, at U.S. \$10,946.20 per
locomotive, or an aggregate of U.S.
\$459,740.23 for all 42 locomotives,
followed by twenty (20) semi-annual
payments, each in arrears, at U.S.
\$21,454.71 per locomotive, or an
aggregate of U.S.\$901,097.82 for all
42 locomotives.

DAILY INTERIM RENT: U.S.\$94.113 per day per locomotive.

All above U.S. dollar figures are based on an assumed con-
version exchange of U.S. \$1 equal to Can. \$1.00. In the event the
final price of any locomotive covered by this Schedule is greater or
less than the amount shown above in U.S. Dollars, the Periodic Rent
and Daily Interim Rent for such Item shall be proportionately increased
or decreased, provided that the final price for 42 locomotives must
not exceed \$14,238,954.49 in United States Dollars.

SCHEDULE A-II
(to Lease --- Security Agreement)

CN. Trust No. 5
(15-year Guideline Basis)

CERTIFICATE OF ACCEPTANCE

TO: Trust Company for USL, Inc., as Trustee
under Trust Agreement dated as of January 1, 1973

UNITED STATES LEASING INTERNATIONAL, INC., as Agent
for the Trustees

GENERAL MOTORS OF CANADA LIMITED [DIESEL DIVISION],
as Manufacturer

I, duly appointed inspector and authorized representative of Canadian National Railway Company ("Lessee") for the purpose of the Agreement to Acquire and Lease dated as of January 1, 1973 among Trust Company for USL, Inc., Trustee under the Trust Agreement dated January 1, 1973, as Lessor, United States Leasing International, Inc., as Agent for the Trustee, and the Lessee, and the Equipment Lease, dated as of January 1, 1973 among the Trustee, the Agent and the Lessee do hereby certify that I have inspected, received, approved and accepted delivery, on behalf of Lessee under said Agreements of the following Items of Equipment:

TYPE OF EQUIPMENT: 2000 H.P. GP-38-2 Diesel Electric Locomotives

PLACE ACCEPTED:

DATE ACCEPTED:

NUMBER OF UNITS:

NUMBERED:

I do further certify that the foregoing Equipment is in good order and condition, and appears to conform to the specifications applicable thereto and to all applicable Canadian Transport Commission and the United States Department of Transportation or other Canadian or United States agency governmental requirements and specifications.

The execution of this Certificate will in no way relieve or decrease the responsibility of the Manufacturer of the Equipment for any warranties it has made with respect to the Equipment.

Dated: _____, 1973.

Inspector and Authorized Representative of Canadian National Railway Company

SCHEDULE B
(to Lease - Security Agreement)

(C.N. Trust No. 5)

SCHEDULE OF CASUALTY VALUE

CASUALTY VALUE: The following per cent of original cost to Lessor of an Item of Equipment, including all taxes and delivery charges, is to be paid in United States Dollars on a Periodic Rent installment payment date, pursuant to Section 11 of the Lease as the result of an Item becoming the subject of a Casualty Occurrence, depending upon when the Casualty Value is paid:

<u>After Rental Payment No.</u>	<u>Payable on Date and in lieu of Payment No.</u>	<u>Casualty Value Payable Per Item (in lieu of rental payment for such item due on such date)</u>
0	1	107.250
1	2	108.875
2	3	110.125
3	4	111.000
4	5	111.750
5	6	112.250
6	7	112.375
7	8	112.375
8	9	112.000
9	10	111.375
10	11	107.375
11	12	103.125
12	13	101.250
13	14	97.125
14	15	93.125
15	16	89.000
16	17	84.625
17	18	80.125
18	19	75.000
19	20	70.750
20	21	65.875
21	22	61.000
22	23	56.125
23	24	51.125
24	25	46.125
25	26	41.125
26	27	36.000
27	28	30.750
28	29	25.500
29	30	20.375
30	Thereafter	15.000

SCHEDULE C-II
(to Lease - Security Agreement)

(C.N. Trust No. 5)
(15-Year Guideline Basis)

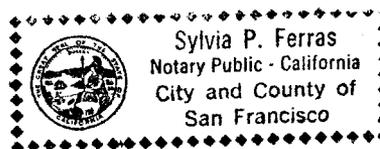
STATE OF CALIFORNIA)
) SS
CITY AND COUNTY OF SAN FRANCISCO)

On this 18th day of July, 1973 before me personally appeared D. E. Mendenhall to me personally known, who being by me duly sworn, says that he is the Vice President of Trust Company for USL, Inc., that one of the seals affixed to the foregoing instrument is the corporate seal of said corporation; that said instrument was signed and sealed on behalf of said corporation by authority of its Board of Directors; and he acknowledged that the execution of the foregoing instrument was the free act and deed of said corporation.

(SEAL)

Sylvia P. Ferras

My Commission expires:



My Commission Expires Oct. 16, 1973

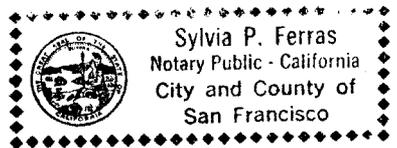
STATE OF CALIFORNIA)
) SS
CITY AND COUNTY OF SAN FRANCISCO)

On this 18th day of July, 1973, before me personally appeared J. MYOVICH, to me personally known, who being by me duly sworn, says that he is a Trust Officer of WELLS FARGO BANK, N.A., that one of the seals affixed to the foregoing instrument is the corporate seal of said corporation, that said instrument was signed and sealed on behalf of said corporation by authority of its Board of Directors; and he acknowledged that the execution of the foregoing instrument was the free act and deed of said corporation.

Sylvia P. Ferras
Notary Public

(SEAL)

My Commission Expires:



My Commission Expires Oct. 16, 1973

STATE OF CALIFORNIA)
) SS
CITY AND COUNTY OF SAN FRANCISCO)

On this 18th day of July, 1973 before me personally appeared R. T. DREILING, to me known to be one of the persons described in and who executed the foregoing instrument and he acknowledged that he executed the same as his free act and deed.

Sylvia P. Ferras
Notary Public

(SEAL)

My Commission Expires:



My Commission Expires Oct. 16, 1973